ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

DRAFT

Unrestricted revenues, gains and other support:	
Net patient service revenue	$ 1,702,671
Research and training support	71,524
Academic activities	64,434
Investment income	85,953
Net assets released from restrictions used for operations	47,229
Other revenue	83,156
Total revenues, gains and other support	2,054,967
Expenses:	
Salaries, wages and fringe benefits	1,187,601
Materials, supplies and services	700,154
Depreciation and amortization	107,691
Interest	37,595
Total expenses	2,033,041
Net income	21,926
Net assets released from restrictions used for acquisition of property and equipment	395
Unrealized depreciation of investments	(9,146)
Transfers to other net assets	(1,667)
Other	(948)
Increase in unrestricted net assets	$ 10,560

The accompanying notes are an integral part of the consolidated financial statements.

CL 145634

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the year ended June 30, 1997
(Dollars in Thousands)

DRAFT

Unrestricted net assets:	
Net income	$ 21,926
Net assets released from restrictions used for acquisition of property and equipment	395
Unrealized depreciation of investments	(9,146)
Transfers to other net assets	(1,667)
Other	(948)
Increase in unrestricted net assets	10,560
Temporarily restricted net assets:	
Contributions	12,181
Investment income	22,035
Net assets released from restrictions	(46,883)
Unrealized depreciation of investments	(6,009)
Transfers from other net assets	2,473
Acquisition of affiliates	18,015
Other	(8)
Increase in temporarily restricted net assets	1,804
Permanently restricted net assets:	
Contributions	7,560
Investment income	1,105
Unrealized appreciation of investments	9,848
Transfers to other net assets	(806)
Acquisition of affiliates	24,654
Other	(741)
Increase in permanently restricted net assets	41,620
Increase in net assets	53,984
Net assets, beginning of year	770,782
Net assets, end of year	$ 824,766

The accompanying notes are an integral part of the consolidated financial statements.

CL 145635

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 1997
(Dollars in Thousands)

DRAFT

Cash flows from operating activities:	
Change in net assets	$ 53,984
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	107,691
Net realized losses on equity investments	107
Equipment valuation adjustment	(2,204)
Net assets balances related to business combinations	(42,669)
Increase/(decrease) in cash from changes in:	
Short-term investments	7,426
Receivables	(46,021)
Inventories	(1,647)
Prepaid expenses	5,257
Accounts payable and accrued expenses	41,971
Deferred revenue	(9,214)
Self-insurance liabilities	(4,248)
Other	(30,840)
Net cash provided by operating activities	79,593
Cash flows from investing activities:	
Acquisition of property and equipment, net	(112,898)
Acquisition of physician practice assets, net	(12,709)
Acquisition of physician practice intangible assets	(18,864)
Proceeds from sale of property and equipment	34,080
Decrease in assets limited or restricted as to use, net	45,778
Cash balances related to business combinations	11,988
Net cash used by investing activities	(52,625)
Cash flows from financing activities:	
Net drawdowns on lines of credit	10,644
Repayments of long-term debt	(18,635)
Net cash used by financing activities	(7,991)
Net increase in cash and cash equivalents	18,977
Cash and cash equivalents, beginning of year	1,539
Cash and cash equivalents, end of year	$ 20,516
Supplemental disclosure:	
Cash paid for interest, net of capitalized interest	$ 43,364
Noncash transactions :	
Business combinations	Refer to Note 15

The accompanying notes are an integral part of the consolidated financial statements.

CL 145636

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

1. **Organization:**

Allegheny Health, Education and Research Foundation (AHERF), is the parent company of Allegheny General Hospital (AGH); Allegheny University Medical Centers (AUMC); Allegheny University of the Health Sciences (AUHS); Allegheny University Hospitals (AUH); Allegheny Hospitals, Centennial (AH, Centennial); Allegheny Hospitals, New Jersey (AH, New Jersey); St. Christopher's Hospital for Children (St. Christopher's); Diversified Health Group, Inc. (DHG); Allegheny Integrated Health Group (AIHG) and Allegheny Health Services Providers Insurance Company (AHSPIC). AGH, AUMC, AUHS, AUH, AH, Centennial, AH, New Jersey, St. Christopher's, and AIHG are Pennsylvania nonprofit charitable organizations. DHG, incorporated as a for-profit corporation, is wholly owned by AHERF. AHSPIC is a captive insurance company incorporated in the Cayman Islands, which is also wholly owned by AHERF. AHERF's commitment to patient care, education, and research is demonstrated by its operation (through its nonprofit subsidiaries) of twelve acute care hospital facilities, one psychiatric hospital, a pediatric hospital, a medical school, undergraduate and graduate schools of health sciences and humanities, a research institute, and physician practices.

For external debt reporting purposes, AHERF presents certain financial information by various obligated groups. The operating units that comprise the various obligated groups are summarized as follows:

Allegheny General Hospital Obligated Group (AGHOG):
- Allegheny General Hospital

Allegheny Hospitals, Centennial:
- Allegheny University Hospitals, City Avenue
- Allegheny University Hospitals, Graduate
- Allegheny University Hospitals, Mt. Sinai
- Allegheny University Hospitals, Parkview

Delaware Valley Obligated Group (DVOG):
- Allegheny University Hospitals, Bucks County
- Allegheny University Hospitals, Elkins Park
- Allegheny University Hospitals, Hahnemann
- Allegheny University Hospitals, MCP
- Allegheny University of the Health Sciences
- Management Support Services (Corporate Division)
- St. Christopher's Hospital for Children

CL 145637

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

1. **Organization:** (continued)

In fiscal year 1997, the Forbes Health System (FHS) and Allegheny Valley Health System (AVH) became part of AUMC via statutory mergers, effective January 1, 1997 and March 1, 1997, respectively. Also, during fiscal year 1997, former Graduate Health System hospitals (Graduate Hospital, Mt. Sinai Hospital, City Avenue Hospital and Parkview Hospital) became part of AH, Centennial and Rancocas Hospital became part of AH, New Jersey via statutory mergers, effective May 1, 1997. The operations of these entities are included in the consolidated statement of operations from their respective dates of merger into the AHERF System. These mergers were accounted for under the purchase method of accounting.

During fiscal year 1997, AHERF purchased one of the largest physician practice groups (along with certain physician practice assets) in the Pittsburgh region, commonly referred to as Penn Group Medical Associates, from Coventry Corporation, which is the owner of HealthAmerica Pennsylvania, Inc. (HealthAmerica). As a result of this acquisition, 76 physicians were added to the AHERF System. In connection therewith, AHERF and HealthAmerica entered into a risk-sharing arrangement whereby AHERF receives certain premium levels to cover the treatment HealthAmerica subscribers receive from AHERF-affiliated physicians. At the time of the acquisition, AHERF assessed and recorded reserves for estimated amounts where costs will exceed premium revenues under this contract.

2. **Accounting Policies:**

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of AHERF and its wholly owned or controlled subsidiaries. All intercompany transactions have been eliminated in consolidation.

CL 145638

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

2. Accounting Policies: (continued)

Net Income:

Consistent with industry practice, certain changes in unrestricted net assets are excluded from net income, including unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Use of Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts reported as revenues and expenses during the reporting period.. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents include highly liquid investments purchased with a maturity date of three months or less.

Investments and Investment Income:

A majority of AHERF's non-pension investments (including endowment, funded depreciation, and special purpose funds) have been commingled for investment management purposes and are included in the AHERF Non-Pension Master Trust structure (Master Trust). While AHERF's investment program has been centralized, identification of investments by specific entity has been maintained pursuant to the development of an internal accounting system. Investments in the Master Trust consist primarily of domestic and international equities, government obligations, corporate obligations and cash. Investments within the Master Trust are stated at estimated fair value.

AHERF's other investments are carried at estimated fair value and consist generally of investments similar to those in the Master Trust.

CL 145639

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

2. Accounting Policies: (continued)

Investments and Investment Income: (continued)

Donated investments are recorded at their estimated fair value at the date of contribution. Unrestricted investment income and gains and losses on sales of investments, which are based on average cost, are included in investment income.

Investment Risks:

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the consolidated balance sheet and consolidated statement of operations.

Grants Receivable and Deferred Revenue:

Grants and contracts are recognized in the year in which expenditures are made, either as research support or, in the case of expenditures for property and equipment, as additions to net assets. Receivables are recorded when contract and grant expenditures exceed funds received. Deferrals are recorded when funds received are in excess of expenditures incurred. Additionally, notices of federal and other research grant awards relating to future years have not been recorded.

During fiscal year 1997, AGH sold certain non-clinical assets, which are being leased back by AGH over a twenty year period. Such transaction resulted in a gain, which has been deferred and will be amortized into income over the lease term. The amount of the unamortized gain was $15,587 at June 30, 1997 and is classified as deferred revenue in the consolidated balance sheet.

Inventories:

Inventories are valued at the lower of average cost or fair value.

CL 145640

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

2. **Accounting Policies:** (continued)

Property and Equipment:

Property and equipment, along with expenditures that extend the useful lives of assets, are recorded at cost. Certain internal computer software development costs are capitalized and included in property and equipment. Interest expense associated with the construction of major capital additions is capitalized and included in property and equipment. Maintenance and repairs are charged to expense as incurred. At the time assets are retired or otherwise disposed of, the cost thereof and the related accumulated depreciation or amortization are eliminated and any resulting gain or loss on disposition is recorded as other revenue.

Depreciation is provided over the estimated useful lives of the assets computed under the straight-line method, with one-half year of depreciation recognized in the year when the related assets are placed into service.

Other Assets:

Other assets consist primarily of bond financing costs, equity investments and investments in other joint ventures, organizational costs, program development costs, goodwill, covenants not-to-compete, and cash surrender values on life insurance policies. Bond financing costs are being amortized over the respective terms of the related bond issues on a basis that approximates the interest method. AHERF has a 33% ownership interest in Gateway Health Plan, L.P. (Gateway). AHERF's share of income from its Gateway investment for fiscal year 1997 was $2,240. Deferred organizational costs are being amortized over five years, program development costs over three years, goodwill over ten to thirty-five years, and covenants not-to-compete over five to fifteen years. The cost and related accumulated amortization of such costs was $228,534 and $10,020 at June 30, 1997, respectively.

AHERF evaluates the recoverability of its intangible assets at each balance sheet date in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 121 establishes criteria for recognizing, measuring, and disclosing impairments of long-lived assets.

CL 145641

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

2. Accounting Policies: (continued)

Restricted Net Assets:

Temporarily restricted net assets are those whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted assets released from restriction during the reporting period are reflected in the consolidated statement of operations.

Net Patient Service Revenue:

AHERF has agreements with third-party payors that provide for payments to AHERF facilities at amounts different from their established rates. Payment arrangements include prospectively determined rates based upon discharges, discounted charges, per diem payments and capitation arrangements. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated net retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care, Uncompensated Care and Other Community Services:

AHERF's facilities maintain charity care policies which were established to assure that all persons seeking treatment receive needed health care services regardless of their ability to pay. These policies provide that persons who lack the means to pay for all or a portion of their needed health care services receive financial assistance in the form of partial or total charge reductions. Because the hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under AHERF's charity care policy approximated $16,324 in fiscal year 1997.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

2. Accounting Policies: (continued)

Charity Care, Uncompensated Care and Other Community Services: (continued)

Additionally, AHERF's facilities provide services to patients covered by Medical Assistance and Medicare, whereby the payments received are less than the costs of providing such services. Also, AHERF's facilities perform services at no charge which benefit the community, such as public health screenings, health care publications, workplace wellness programs, health related research, educational programs and other activities.

Premium Revenue:

AHERF has agreements with various third-party payors to provide medical services to subscribing participants. Under these agreements, AHERF receives monthly capitation payments based on the number of participants, regardless if services are performed by AHERF. In addition, certain third-party payors make fee-for-service payments to AHERF for certain covered services based upon discounted fee schedules. Accruals are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined for retroactive adjustments for premiums and statistics, and for claims incurred by not yet reported. Additionally, AHERF mitigates a portion of its financial risks by purchasing stop-loss insurance.

AHERF has assumed the risk of managing care for approximately 500,000 covered lives.

Income Taxes:

AHERF, the parent company, is a not-for-profit corporation that has been recognized as tax exempt pursuant to Section 501 (c)(3) of the Internal Revenue Code.

3. Assets Limited or Restricted as to Use:

Assets limited or restricted as to use consist of the following components as of June 30, 1997:

Unrestricted:	
By Boards of Trustees:	
Future additions or replacement of property and equipment	$ 215,711
Self-insurance reserve funds	70,117

CL 145643

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

3. **Assets Limited or Restricted as to Use:** (continued)

Endowments	101,877
Other	23,631
	411,336
Debt service funds	64,541
Endowments	99,639
Total unrestricted	575,516
Temporarily restricted:	
By donor	21,952
Student loans	22,186
Endowments	78,692
Total temporarily restricted	122,830
Permanently restricted:	
Endowments	90,357
Perpetual trusts	66,040
Total permanently restricted	156,397
Total assets limited or restricted as to use	854,743
Less current portion	73,922
Assets limited or restricted as to use, net of current portion	$ 780,821

The following table sets forth the composition of assets limited or restricted as to use by investment type as of June 30, 1997:

Unrestricted:	
Cash and short-term investments	$ 83,762
Government and corporate obligations	239,259
Marketable equity securities	252,495
Total unrestricted	575,516
Temporarily restricted:	
Cash and short-term investments	27,264
Government and corporate obligations	42,361
Marketable equity securities	53,205
Total temporarily restricted	122,830

CL 145644

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

3. Assets Limited or Restricted as to Use: (continued)

Permanently restricted:	
Cash and short-term investments	1,618
Government and corporate obligations	46,172
Marketable equity securities	108,607
Total permanently restricted	156,397
Assets limited or restricted as to use	$ 854,743

The various Boards of Trustees retain control over certain designated assets and may, at their discretion, subsequently use such assets for other purposes. Assets limited or restricted as to use, including $8,670 of temporarily restricted funds that are required to satisfy obligations classified as current liabilities, are reported as current assets on the consolidated balance sheet as of June 30, 1997.

Investment returns for the year ended June 30, 1997 consisted of the following:

Net realized gains on investments	$ 63,459
Dividends and interest	22,494
	$ 85,953

4. Property and Equipment:

Property and equipment consists of the following components as of June 30, 1997:

Buildings and building improvements	$ 831,136
Equipment	744,514
Land and land improvements	49,320
	1,624,970
Less accumulated depreciation and amortization	761,415
	863,555
Construction in progress	57,315
Property and equipment, net	$ 920,870

CL 145645

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

5. **Line of Credit:**

AHERF maintains a $100,000 working capital line of credit from a consortium of banks with various interest rate options (5.99% at June 30, 1997) with a maturity date of March 7, 2000 and with a commitment fee of 0.2% on the total commitment amount of the line. The amount outstanding under the line was $57,100 as of June 30, 1997, which borrowings were used to repay the then existing lines of credit balances at which time such lines of credit arrangements were terminated. The most restrictive covenant requires certain AHERF obligated groups to maintain minimum liquidity ratios.

6. **Long-Term Debt:**

Long-term debt consists of the following obligations as of June 30, 1997:

Pennsylvania Higher Educational Facilities Authority (PHEFA) Revenue Bonds:	
DVOG Series 1996 A-C Health Services Revenue Bonds, net of unamortized discount of $3,462 (with maturity dates through November 15, 2021 and fixed rates ranging from 4.0% to 5.88%)	$ 302,688
DVOG Series 1996 D Health Services Revenue Bonds (with maturity dates through November 15, 2035 and variable interest rates ranging from 2.4% to 4.6% during fiscal year 1997 and at 4.1% on June 30, 1997)	50,000
AGHOG Series 1991 A Revenue Bonds, net of unamortized discount of $628 in 1997 (with maturity dates through September 1, 2017 and fixed interest rates ranging from 6.3% to 7.25%)	54,157
Allegheny County Hospital Development Authority (ACHDA):	
AGHOG Series 1995 A and B Hospital Revenue Bonds:	
A - net of unamortized discount of $421 (with maturity dates through September 1, 2020 and fixed interest rates ranging from 4.75% to 6.25%)	48,624
B - (with maturity dates through September 1, 2020 and variable interest rates ranging from 2.25% to 4.5% during fiscal year 1997 and at 4.15% on June 30, 1997)	49,000

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

6. **Long-Term Debt:** (continued)

AGHOG Series 1993 A-C Notes:	
A - (with maturity dates through July 1, 2012 and variable interest rates ranging from 5.63% to 5.95% during fiscal year 1997 and at 5.94% on June 30, 1997)	26,500
B - (with maturity dates through January 1, 2012 and a fixed interest rate of 7.85%)	13,370
C - (with maturity dates through January 1, 2004 and a fixed interest rate of 7.33%)	11,570
AGHOG Series 1988 A-D Hospital Revenue Bonds (with maturity dates through March 1, 2017 and variable interest rates ranging from 2.35% to 4.5% during fiscal year 1997 and at 4.2% on June 30, 1997)	46,800
AVH Hospital Revenue Bonds:	
Series 1990, net of unamortized discount of $227 (with maturity dates through August 1, 2020 and fixed interest rates ranging from 7.4% to 7.75%)	12,473
Series 1986 Refunding, net of unamortized discount of $100 (with maturity dates through August 1, 2013 and fixed interest rates ranging from 7.0% to 7.5%)	24,750
Series 1982 Q, net of unamortized discount of $282 (with maturity dates through August 1, 2015 and a fixed interest rate of 7.0%)	5,803
The Hospitals and Higher Education Facilities Authority of Philadelphia Revenue Bonds:	
Graduate Hospital Series 1993 A and B Hospital Revenue Bonds, net of unamortized discount of $707 (with maturity dates through July 1, 2018 and fixed interest rates ranging from 5% to 6.25%)	53,833
Graduate Hospital Series 1991 A and B Hospital Revenue Bonds, net of unamortized discount of $3,337 (with maturity dates through July 1, 2021 and fixed interest rates ranging from 6.5% to 7.25%)	106,723
Monroeville Hospital Authority:	
FHS Series 1995 Hospital Revenue Bonds, net of unamortized discount of $966 (with maturity dates through October 1, 2015 and fixed interest rates ranging from 4.5% to 6.25%)	36,104

CL 145647

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

6. **Long-Term Debt:** (continued)

FHS Series 1992 Hospital Revenue Bonds, net of unamortized discount of $908 (with maturity dates through October 1, 2013 and fixed interest rates ranging from 6.5% to 7.35%)	42,257
Rancocas Hospital New Jersey Health Care Facilities Financing Authority 1987 Series C Revenue Bonds (with maturity dates through July 1, 2012 and fixed interest rates ranging from 7.6% to 8.5%)	41,040
DVOG Series 1996 E Taxable Notes Payable (with maturity dates through November 15, 2015 and variable interest rates ranging from 5.36% to 5.68% during fiscal year 1997 and at 5.68% on June 30, 1997)	50,978
City Avenue Hospital and Parkview Hospital note payable to the Philadelphia College of Osteopathic Medicine (with maturity dates through July 13, 2023 and an imputed interest rate of 6.00%)	5,920
Other obligations	12,387
	994,977
Less current portion of long-term debt	34,704
Long-term debt	$ 960,273

All obligations are subject to early redemption at the option of AHERF. AHERF is subject to various debt covenants contained in the agreements which govern the preceding obligations. The most restrictive covenants require certain AHERF obligated groups to maintain minimum annual debt service coverage ratios, liquidity ratios, capitalization ratios, and levels of net assets (refer to Note 17).

Additionally, certain of these bonds are collateralized by the pledge of certain of the respective obligated group's gross revenue, real property, personal property and unrestricted receivables.

Following are scheduled principal repayments and sinking fund requirements on the long-term debt for each of the next five fiscal years:

1998	-	$ 34,704
1999	-	29,059
2000	-	29,937
2001	-	31,349
2002	-	32,189

CL 145648

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

6. **Long-Term Debt:** (continued)

FHS has entered into interest rate swap agreements having an aggregate notional principal amount of $20,000 whereby FHS pays a variable rate and receives a fixed rate of approximately 4.8%. Interest payments (both made and received) pursuant to these swap agreements are based on the notional amounts of the agreements in effect as no funds were actually borrowed. During fiscal year 1997, FHS recognized investment income of approximately $109 on these swap agreements. The swap agreements subject FHS to market risk associated with changes in interest rates and have an aggregate market value of $74 as of June 30, 1997.

7. **Commitments:**

In October 1991, AHERF entered into an agreement to manage the Sidney Hillman Medical Center (SHMC) for a 20 year period. SHMC provides primary and speciality care physician services primarily to members of a garment workers union. Under the terms of the agreement, AHERF subsidizes certain operating losses of SHMC. During fiscal year 1997, such subsidies amounted to $1,127.

Effective July 1, 1989, AHERF entered into an operating lease agreement with the Commonwealth of Pennsylvania whereby all land and buildings associated with the Eastern Pennsylvania Psychiatric Institute are leased for a term of 25 years at annual rental payments of one dollar. The agreement also specifies provisions for a renewal option for additional terms.

AHERF leases certain medical and office equipment and office space used in its operations. Rental expense for operating leases during the year ended June 30, 1997 was $62,528. The annual and total future minimum lease payments under noncancelable operating leases entered into as of June 30, 1997 are as follows:

Year	
1998	$ 55,041
1999	52,204
2000	46,914
2001	37,961
2002	30,419
2003 and thereafter	209,137
Total minimum payments	$ 431,676

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

8. **Net Patient Service Revenue:**

Net patient service revenue for the year ended June 30, 1997 consists of the following components:

Gross patient service revenue	$ 4,002,633
Less provisions for contractual adjustments	2,299,962
Net patient service revenue	$ 1,702,671

Contractual adjustments represent the difference between standard billing rates and amounts estimated to be paid under various payor agreements. Provisions for contractual adjustments are recorded in the period in which the services are provided.

During fiscal year 1997, AHERF's bad debt expense amounted to $66,416, which is included in materials, supplies and services expense on the consolidated statement of operations.

9. **Insurance:**

AHERF is self-insured for primary coverage and for certain levels of excess coverage related to professional and general liability claims through AHSPIC, Hahnemann Insurance Company (HAHN - an AUHS affiliated captive insurance company incorporated in Vermont), FHS Insurance LTD. (an FHS affiliated captive insurance company incorporated in the Cayman Islands), and various self-insurance trusts. In addition, AHERF participates in the Medical Professional Liability Catastrophic Loss Fund of the Commonwealth of Pennsylvania (CAT Fund) and maintains insurance under commercially insured programs on a claims-made basis for amounts in excess of the self-insurance and CAT Fund coverages. Premiums for the self-insurance coverage are retrospectively rated and are paid to AHSPIC, HAHN, and FHS Insurance LTD. based on funding requirements determined by independent insurance actuaries to include provisions for estimates of the ultimate costs for both reported claims and claims incurred but not reported, determined on a discounted basis using a 7.50% rate. During fiscal year 1997, AHERF's total professional and general liability insurance expense was $29,866.

AHERF is also self-insured for workers' compensation liability claims and has established trust funds for the payment of such claims. Funding requirements and estimates of losses incurred are determined on a discounted basis using actuarial assumptions which include a 6.00% discount rate and which are subject to revision based upon actual experience. During fiscal year 1997, total workers' compensation expense was $13,659.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

10. **Pension Plans:**

AHERF maintains various pension plans covering substantially all of its employees. Union employees are covered by multi-employer pension plans to which AHERF contributes based on individual plan policies and actuarial valuations. Expenses in fiscal year 1997 pertaining to the multi-employer pension plans amounted to $3,697. Noncontributory, defined benefit pension plans cover substantially all other full-time employees (the Plans). Pension benefits generally depend upon age, length of service and remuneration. AHERF's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the Plans with assets sufficient to meet benefits to be paid to retirees or their beneficiaries and to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Net pension cost related to the defined benefit plans for the year ended June 30, 1997 includes the following components:

Service cost-benefits earned during the period	$ 23,784
Interest cost on projected benefit obligation	19,976
Actual return on assets	(25,233)
Net amortization and deferral	1,800
Net pension cost	$ 20,327

The following table sets forth the consolidated funded status of the defined benefit plans as of June 30, 1997:

	Overfunded Plans	Underfunded Plans
Actuarial present value of benefit obligation:		
Vested benefit obligation	$ (80,844)	$ (173,202)
Non-vested benefit obligation	(1,282)	(9,723)
Accumulated benefit obligation	(82,126)	(182,925)
Effect of projected future compensation levels	(11,350)	(239)
Projected benefit obligation	(93,476)	(183,164)
Plan assets at fair value (primarily listed equity securities, convertible securities and bonds)	103,543	150,603
Funded status - projected benefit obligation in (excess of)/less than plan assets	10,067	(32,561)
Unrecognized prior service credit due to plan amendments	(978)	(6,884)

CL 145651

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

10. **Pension Plans:** (continued)

	Overfunded Plans	Underfunded Plans
Unrecognized net gain from past experience different from that assumed	(274)	(8,836)
Unrecognized net asset arising at transition	(15,311)	(227)
Funding contributions	-	2,480
Accrued pension liability	$ (6,496)	$ (45,574)

Significant assumptions used to determine the projected benefit obligation and assets of the plans include:

Discount rate	7.50% - 8.25%
Rate of increase in compensation levels	3.50% - 5.00%
Expected long-term rate of return on assets	6.00% - 9.50%

AHERF sponsors a contributory, defined contribution savings plan, which is available to substantially all AHERF employees in order to provide additional security during retirement by creating an incentive for employees to make regular contributions on their own behalf. Under this plan and as determined on an individual employee basis, AHERF contributes an amount equal to 25% of an employee's contribution up to 4% of such employee's salary in a given year. AHERF's expense associated with contributions to this savings plan was $4,728 for the year ended June 30, 1997.

11. **Functional Expenses:**

AHERF provides general health care services through its hospitals, and education services through its university, and performs medical research through its research institute. Expenses related to these services for the year ended June 30, 1997 are as follows:

Health care services	$ 1,634,904
Education services	83,693
Medical research	66,368
General and administrative	248,076
	$ 2,033,041

CL 145652

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

12. **Concentrations of Credit Risk:**

AHERF grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. The following percentages represent the mix of receivables from patients and third-party payors as of June 30, 1997 and do not represent the volume of services by such payors:

Medicare	22%
Medicaid	16
Blue Cross	10
Managed care	25
Other third-party payors	17
Patients	10
	100%

13. **Fair Value of Financial Instruments:**

The following methods and assumptions were used in estimating the fair value of AHERF's financial instruments:

Cash and cash equivalents: The carrying value reported in the consolidated balance sheet for cash and cash equivalents approximates their fair value.

Short-term investments: The carrying value reported in the consolidated balance sheet for short-term investments approximates their fair value.

Assets limited or restricted as to use: These assets consist primarily of government and corporate obligations, marketable domestic and international equity securities, cash and short-term investments. For government and corporate obligations and marketable equity securities, fair values were determined based on quoted market prices and dealer quotes where available, or quoted market prices pertaining to similar securities where not available. The carrying value reported in the consolidated balance sheet for all assets limited or restricted as to use approximates their fair value.

Student loans receivable: Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. Government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

CL 145653

13. **Fair Value of Financial Instruments:** (continued)

Long-term debt: The fair value of all obligations included in long-term debt is based on current traded values. The carrying and fair values of AHERF's long-term debt obligations (excluding capital leases) are $984,011 and $1,013,376, respectively, as of June 30, 1997.

14. **Legal Matters:**

AHERF is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not yet been adjudicated. The ultimate liability from these actions cannot be determined because of the uncertainties that exist. In the opinion of management, the eventual disposition of these matters will not have a material adverse effect on the consolidated financial position of AHERF. However, it is possible that, upon settlement, results of operations or cash flows in a particular period could be materially affected.

AHERF is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with these laws and regulations has increased as well as compliance review by other third-party payors, resulting in fines and penalties for noncompliance by individual health care providers.

15. **Business Combinations:**

As discussed in Note 1, FHS, AVH and certain hospitals of the Graduate Health System became part of AHERF via statutory mergers. These mergers have been accounted for under the purchase method with the purchase price being the amount of the respective hospital's outstanding liabilities assumed by AHERF at the date of acquisition. The purchase price of the acquisitions has been allocated based on the fair value of the assets acquired and liabilities assumed. The operations of the acquired hospitals have been included in the accompanying consolidated financial statements from their respective dates of acquisition.

The following unaudited pro forma financial information presents the results of operations of the acquired hospitals as if the acquisitions had occurred at the beginning of fiscal year 1997 and the balance sheet information of the acquired hospitals at the respective acquisition dates. The following unaudited pro forma financial results are not necessarily indicative of the actual results that would have occurred nor is it indicative of future results of operations of the acquired hospitals.

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

15. Business Combinations: (continued)

(Unaudited Pro Forma Information)

	Forbes Health System	Allegheny Valley Health System	Former Graduate Health System Entities
Pro Forma Statement of Operations for the year ended June 30, 1997			
Total revenue	$160,673	$81,167	$403,654
Operating expenses	142,733	71,199	405,051
Restructuring expenses	-	-	49,062
Income/(loss) from operations	$17,940	$9,968	($50,459)
Balance Sheet Information at Date of Acquisition			
Current assets	$18,230	$9,299	$94,925
Assets limited or restricted as to use, net of current portion	133,167	49,514	75,737
Property and equipment, net	-	302	167,489
Other assets	9,004	102	120,572
Total assets	$160,401	$59,217	$458,723
Current liabilities	$27,484	$10,335	$149,840
Long-term debt	75,900	43,586	211,558
Other noncurrent liabilities	39,478	5,296	72,195
Total liabilities	142,862	59,217	433,593
Net assets:			
Unrestricted	-	-	-
Temporarily restricted	-	-	18,015
Permanently restricted	17,539	-	7,115
Total net assets	17,539	-	25,130
Total liabilities and net assets	$160,401	$59,217	$458,723

CL 145655

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

16. **Subsequent Events:**

In July 1997, Canonsburg General Hospital (CGH) became part of AUMC via a statutory merger. CGH joins FHS and AVH as members of AUMC. CGH is a 120 bed facility with 92 acute-care beds and 28 skilled nursing/sub-acute beds.

In September, 1997 AHERF entered into a $30,000 operating lease program, which will be used to finance certain equipment needs of AHERF.

17. **Debt Covenants:**

The Allegheny Hospitals, Centennial Obligated Group (Obligated Group) was not in compliance with its debt service coverage ratio covenant for the twelve-month period ended June 30, 1997. However, on September _____, 1997, the Obligated Group received a waiver of the provisions of this covenant as of June 30, 1997. Accordingly, the Graduate Hospital Series 1993 A and B and 1991 A and B Hospital Revenue Bonds have been classified as noncurrent liabilities in the accompanying consolidated balance sheet.

Report of Independent Accountants on Consolidating and Combining Financial Information

Our report on the audit of the consolidated financial statements of Allegheny Health, Education and Research Foundation as of June 30, 1997, and for the year then ended appears on page 1. This audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating and combining financial information accompanying the consolidated financial statements is not necessary for fair presentation of the consolidated financial position, results of operations, changes in net assets and cash flows of Allegheny Health, Education and Research Foundation in conformity with generally accepted accounting principles. The supplementary consolidating and combining financial information is presented only for purposes of additional analysis and is not a required part of the consolidated and combining financial statements. The supplementary consolidating financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Pittsburgh, Pennsylvania
September 4, 1997, except Note 17 which is dated September _____, 1997

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

ASSETS

	Allegheny General Hospital	Allegheny University Medical Centers	Delaware Valley Obligated Group	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group	Allegheny Singer-Research Institute	AHERF Operations	Elim	Consolidated AHERF
Current assets:										
Cash and cash equivalents	$ 4,962	$ 8,779	$ 20,444	$ 968	$ 1,238	$ 858	$ -	$ (16,683)	$ -	$ 20,516
Short-term investments	2,901	-	6	500	-	397	-	-	-	3,804
Assets limited or restricted as to use	4,643	2,960	26,167	11,695	3,290	-	-	25,167	-	73,922
Receivables:										
Patient accounts, net	54,158	27,004	201,914	49,632	9,022	23,999	-	1,342	-	367,061
Grants and other	7,593	1,379	40,312	10,849	244	3,743	1,106	24,842	2,051	92,119
Inventories	10,737	2,270	12,733	7,138	396	-	-	192	-	33,466
Prepaid expenses	1,249	1,689	4,568	1,664	340	-	-	10,054	(4,396)	15,168
Total current assets	86,243	44,031	306,144	82,436	14,530	28,997	1,106	44,914	(2,345)	606,056
Assets limited or restricted as to use, net of current portion	58,600	184,544	204,322	58,240	11,764	-	-	263,611	(260)	780,821
Property and equipment, net	231,588	4,234	476,191	144,123	23,354	-	149	41,645	(414)	920,870
Due from affiliates	143,714	-	-	-	-	-	84	292,687	(436,485)	-
Other assets	68,095	7,424	41,638	105,834	20,033	1,544	-	103,068	(31,703)	315,933
Total assets	$ 588,240	$ 240,233	$ 1,028,295	$ 390,633	$ 69,681	$ 30,541	$ 1,339	$ 745,925	$ (471,207)	$ 2,623,680

LIABILITIES AND NET ASSETS

	Allegheny General Hospital	Allegheny University Medical Centers	Delaware Valley Obligated Group	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group	Allegheny Singer-Research Institute	AHERF Operations	Elim	Consolidated AHERF
Current liabilities:										
Accounts payable and accrued expenses	$ 58,837	$ 24,419	$ 129,683	$ 68,077	$ 11,615	$ 24,974	$ 684	$ 171,232	$ 1	$ 489,522
Deferred revenue	-	-	17,823	1,142	-	-	1,399	-	(3,991)	16,373
Line of credit	-	-	57,100	-	-	-	-	-	-	57,100
Current portion of long-term debt	7,567	3,462	12,803	7,912	2,912	25	-	23	-	34,704
Total current liabilities	66,404	27,881	217,409	77,131	14,527	24,999	2,083	171,255	(3,990)	597,699
Long-term debt, net of current portion	242,454	118,150	394,478	166,025	38,271	88	-	807	-	960,273
Self-insurance liabilities	-	1,301	7,320	-	-	-	-	83,220	-	91,841
Due to affiliates	-	16,632	40,992	100,249	13,414	15,549	-	251,163	(437,999)	-
Other noncurrent liabilities	16,191	41,128	19,690	12,006	75	15,000	-	78,617	(33,606)	149,101
Total liabilities	325,049	205,092	679,889	355,411	66,287	55,636	2,083	585,062	(475,595)	1,798,914
Net assets:										
Unrestricted	252,086	16,189	191,270	10,275	2,069	(25,095)	(792)	98,256	25,538	569,796
Restricted:										
Temporarily	3,576	-	76,997	17,776	1,325	-	48	12,079	(1,043)	110,758
Permanently	7,529	18,952	80,139	7,171	-	-	-	50,528	(20,107)	144,212
Total net assets	263,191	35,141	348,406	35,222	3,394	(25,095)	(744)	160,863	4,388	824,766
Total liabilities and net assets	$ 588,240	$ 240,233	$ 1,028,295	$ 390,633	$ 69,681	$ 30,541	$ 1,339	$ 745,925	$ (471,207)	$ 2,623,680

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

	Allegheny General Hospital	Allegheny University Medical Centers	Delaware Valley Obligated Group	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group	Allegheny Singer-Research Institute	AHERF Operations	Elim.	Consolidated AHERF
Unrestricted revenues, gains and other support:										
Net patient service revenue	$ 441,088	$ 103,059	$ 956,980	$ 64,843	$ 16,699	$ 117,589	$ -	$ 2,413	$ -	$ 1,702,671
Research and training support	-	-	66,077	96	-	-	9,440	-	(4,089)	71,524
Academic activities	-	-	64,434	-	-	-	-	-	-	64,434
Investment income/(loss)	20,470	6,882	17,796	1,006	1,373	(1,021)	299	45,601	(6,453)	85,953
Net assets released from restrictions used for operations	1,081	741	8,386	189	-	-	169	36,663	-	47,229
Other revenue	15,192	1,962	63,941	2,138	378	9,400	24	42,584	(52,463)	83,156
Total revenues, gains and other support	477,831	112,644	1,177,614	68,272	18,450	125,968	9,932	127,261	(63,005)	2,054,967
Expenses:										
Salaries, wages and fringe benefits	197,392	53,130	661,370	26,048	7,743	130,355	4,829	106,587	147	1,187,601
Materials, supplies and services	224,748	37,136	411,078	27,802	6,293	48,682	10,003	(13,677)	(51,911)	700,154
Depreciation and amortization	30,873	(1,386)	57,099	1,746	678	8,319	883	9,479	-	107,691
Interest	12,975	3,707	24,366	2,369	545	33	53	-	(6,451)	37,595
Total expenses	465,988	92,587	1,153,913	57,965	15,259	187,389	15,768	102,389	(58,217)	2,033,041
Net income/(loss)	11,843	20,057	23,701	10,307	3,191	(61,421)	(5,836)	24,872	(4,788)	21,926
Net assets released from restrictions used for acquisition of property and equipment	167	-	228	-	-	-	-	-	-	[illegible]
Unrealized appreciation/(depreciation) of investments	(1,191)	4,188	(7,915)	40	(1,078)	-	-	(3,190)	-	(9,146)
Transfers to other net assets	-	-	(1,667)	-	-	-	-	-	-	(1,667)
Transfers (to)/from affiliates, net	31,620	(8,007)	25,997	(72)	(44)	328	(13,188)	(43,715)	7,081	-
Other	-	(49)	1	-	-	(1,076)	3	170	3	(948)
Increase/(decrease) in unrestricted net assets	$ 42,439	$ 16,189	$ 40,345	$ 10,275	$ 2,069	$ (62,169)	$ (19,021)	$ (21,863)	$ 2,296	$ 10,560

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATING STATEMENTS OF CHANGES IN NET ASSETS
For the year ended June 30, 1997
(Dollars in Thousands)

	Allegheny General Hospital	Allegheny University Medical Centers	Delaware Valley Obligated Group	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group	Allegheny Singer-Research Institute	AHERF Operations	Elim.	Consolidated AHERF
Unrestricted net assets:										
Net income/(loss)	$ 11,843	$ 20,057	$ 23,701	$ 10,307	$ 3,191	$ (61,421)	$ (5,836)	$ 24,872	$ (4,788)	$ 21,926
Net assets released from restrictions used for acquisition of property and equipment	167	-	228	-	-	-	-	-	-	395
Unrealized appreciation/(depreciation) of investments	(1,191)	4,188	(7,915)	40	(1,078)	-	-	(3,190)	-	(9,146)
Transfers to other net assets	-	-	(1,667)	-	-	-	-	-	-	(1,667)
Transfers (to)/from affiliates	31,620	(8,007)	25,997	(72)	(44)	328	(13,188)	(43,715)	7,081	-
Other	-	(49)	1	-	-	(1,076)	3	170	3	(948)
Increase/(decrease) in unrestricted net assets	42,439	16,189	40,345	10,275	2,069	(62,169)	(19,021)	(21,863)	2,296	10,560
Temporarily restricted net assets:										
Contributions	1,506	-	10,393	89	50	-	143	-	-	12,181
Investment income	1,048	-	19,047	158	-	-	2,059	-	(277)	22,035
Net assets released from restrictions	(1,248)	-	(8,814)	(189)	-	-	(169)	(36,463)	-	(46,883)
Unrealized appreciation/(depreciation) of investments	265	-	(2,303)	978	-	-	(1,003)	(4,046)	-	(6,009)
Transfers from other net assets	-	-	2,473	-	-	-	-	-	-	2,473
Transfers (to)/from affiliates	(310)	-	5,848	-	-	-	(5,432)	-	(106)	-
Acquisition of affiliates	-	-	-	16,740	1,275	-	-	-	-	18,015
Other	-	-	-	-	-	-	(8)	-	-	(8)
Increase/(decrease) in temporarily restricted net assets	1,261	-	26,944	17,776	1,325	-	(4,410)	(40,709)	(383)	1,804
Permanently restricted net assets:										
Contributions	4,815	-	2,689	56	-	-	-	-	-	7,560
Investment income	-	735	370	-	-	-	-	-	-	1,105
Unrealized appreciation of investments	-	1,419	1,697	-	-	-	-	6,732		9,848
Transfers to other net assets	-	-	(806)	-	-	-	-	-	-	(806)
Transfers (to)/from affiliates	1,150	-	8,946	-	-	-	(5,986)	-	(4,110)	-
Acquisition of affiliates	-	17,539	-	7,115	-	-	-	-	-	24,654
Other	-	(741)	-	-	-	-	-	-	-	(741)
Increase/(decrease) in permanently restricted net assets	5,965	18,952	12,896	7,171	-	-	(5,986)	6,732	(4,110)	41,620
Increase/(decrease) in net assets	49,665	35,141	80,185	35,222	3,394	(62,169)	(29,417)	(55,840)	(2,197)	53,984
Net assets, beginning of year	213,526	-	268,221	-	-	37,074	28,673	216,701	6,385	770,782
Net assets, end of year	$ 263,191	$ 35,141	$ 348,406	$ 35,222	$ 3,394	$ (25,095)	$ (744)	$ 160,861	$ 4,188	$ 824,766

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

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CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended June 30, 1997
(Dollars in Thousands)

	Allegheny General Hospital	Allegheny University Medical Centers	Delaware Valley Obligated Group	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group	Allegheny Singer Research Institute	AHERF Operations	Elim.	Consolidated AHERF
Cash flows from operating activities:										
Change in net assets	$ 49,663	$ 35,141	$ 80,185	$ 35,222	$ 3,394	$ (62,169)	$ (29,417)	$ (35,840)	$ (2,197)	$ 33,984
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:										
Depreciation and amortization	30,873	(1,386)	57,099	1,746	678	8,319	883	9,470	-	107,691
Net realized (gains)/losses on equity investments	(1,030)	-	-	-	-	1,137	-	-	-	107
Equipment valuation adjustment	-	-	-	-	-	(2,204)	-	-	-	(2,204)
Transfers to/(from) affiliates	(74,924)	-	(58,139)	-	-	88,983	-	44,078	-	-
Net assets balances related to business combinations	-	(17,539)	(33,102)	(24,484)	(646)	-	33,302	-	-	(42,469)
Increase/(decrease) in cash from changes in:										
Short-term investments	3,554	-	(6)	(500)	-	(10)	4,939	(551)	-	7,426
Receivables	(9,363)	(10,016)	2,445	(3,887)	(712)	(9,153)	(2,576)	(21,252)	8,495	(46,021)
Inventories	(692)	20	16	(1,214)	(45)	73	-	195	-	(1,647)
Prepaid expenses	(416)	1,640	(1,188)	(563)	(4)	488	8	226	5,064	5,257
Accounts payable and accrued expenses	8,069	(10,718)	6,984	(30,601)	(7,235)	10,407	120	64,929	16	41,971
Deferred revenue	(518)	-	18	-	-	-	3,090	(11,818)	2,034	(9,214)
Self-insurance liabilities	-	361	(2,110)	-	(926)	-	-	(1,573)	-	(4,248)
Other	(89)	(528)	(3,403)	(3,983)	(37)	(3,317)	(18,113)	2,174	(1,523)	(10,840)
Net cash provided/(used) by operating activities	5,107	(3,023)	46,600	(28,264)	(5,553)	32,556	(9,760)	30,047	11,891	79,593
Cash flows from investing activities:										
Acquisition of property and equipment, net	(12,911)	(4,130)	(51,418)	(4,208)	(337)	(3,388)	(618)	(35,860)	-	(112,898)
Acquisition of physician practice assets, net	-	-	-	-	-	(12,709)	-	-	-	(12,709)
Acquisition of physician practice intangible assets	-	-	-	-	-	(18,864)	-	-	-	(18,864)
Proceeds from sale of property and equipment	14,080	-	-	-	-	-	-	-	-	14,080
Decrease/(increase) in assets limited or restricted as to use, net	110,137	(1,930)	(25,880)	(490)	2,350	-	6,319	(44,728)		45,778
Cash balances related to business combinations	-	1,852	-	4,696	3,651	1,542	-	1,018	(771)	11,988
Net cash provided/(used) by investing activities	111,306	(4,228)	(77,298)	(2)	5,664	(33,419)	5,701	(79,578)	(771)	(52,625)
Cash flows from financing activities:										
Net drawdowns/(repayments) on lines of credit	-	-	16,500	(6,156)	-	-	-	-	-	10,344
Due to/(from) affiliates	(118,184)	16,632	6,940	35,594	3,451	2,411	2,316	63,142	(11,120)	-
Issuance/(repayments) of long-term debt	(14,602)	(652)	120	(204)	(2,324)	(983)	21	(11)	-	(18,615)
Net cash provided/(used) by financing activities	(133,188)	15,980	23,560	29,234	1,127	1,428	2,337	63,131	(11,120)	(7,991)
Net increase/(decrease) in cash and cash equivalents	3,225	8,729	(6,838)	968	1,238	765	(710)	11,600	-	18,977
Cash and cash equivalents, beginning of year	1,737	-	37,282	-	-	93	710	(28,283)	-	1,539
Cash and cash equivalents, end of year	$ 4,962	$ 8,729	$ 30,444	$ 968	$ 1,238	$ 858	$ -	$ (16,683)	$ -	$ 20,516
Supplemental disclosure:										
Cash paid for interest, net of capitalized interest	$ 13,621	$ 2,619	$ 26,057	$ 964	$ 15	$ 81	$ -	$ -	$ -	$ 43,364

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ALLEGHENY UNIVERSITY MEDICAL CENTERS

CONSOLIDATING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

ASSETS

	Forbes Hospitals	Allegheny Valley Hospital	FHSI	Elim.	Consolidated AUMC
Current assets:					
Cash and cash equivalents	$ 5,149	$ 2,692	$ 888	$ -	$ 8,729
Assets limited or restricted as to use	2,960	-	-	-	2,960
Receivables:					
Patient accounts, net	16,621	10,383	-	-	27,004
Grants and other	1,000	364	15	-	1,379
Inventories	1,949	321	-	-	2,270
Prepaid expenses	466	1,210	3	-	1,689
Total current assets	28,145	14,980	906	-	44,031
Assets limited or restricted as to use, net of current portion	131,858	51,719	967	-	184,544
Property and equipment, net	3,053	1,181	-	-	4,234
Other assets	7,005	34	550	(165)	7,424
Total assets	$ 170,061	$ 67,914	$ 2,423	$ (165)	$ 240,233

LIABILITIES AND NET ASSETS

	Forbes Hospitals	Allegheny Valley Hospital	FHSI	Elim.	Consolidated AUMC
Current liabilities:					
Accounts payable and accrued expenses	$ 17,058	$ 7,127	$ 234	$ -	$ 24,419
Current portion of long-term debt	2,682	780	-	-	3,462
Total current liabilities	19,740	7,907	234	-	27,881
Long-term debt, net of current portion	75,904	42,246	-	-	118,150
Self-insurance liabilities	-	-	1,301	-	1,301
Due to affiliates	12,313	4,319	-	-	16,632
Other noncurrent liabilities	35,533	5,595	-	-	41,128
Total liabilities	143,490	60,067	1,535	-	205,092
Net assets:					
Unrestricted	7,619	7,847	888	(165)	16,189
Restricted:					
Permanently	18,952	-	-	-	18,952
Total net assets	26,571	7,847	888	(165)	35,141
Total liabilities and net assets	$ 170,061	$ 67,914	$ 2,423	$ (165)	$ 240,233

CL 145662

ALLEGHENY UNIVERSITY MEDICAL CENTERS

CONSOLIDATING STATEMENT OF OPERATIONS
(Dollars in Thousands)

	Forbes Hospitals for the period January 1, 1997 through June 30, 1997	Allegheny Valley Hospital for the period March 1, 1997 through June 30, 1997	FHS Insurance, Ltd. for the period January 1, 1997 through June 30, 1997	Elim.	Consolidated AUMC
Unrestricted revenues, gains and other support:					
Net patient service revenue	$ 74,078	$ 28,981	$ -	$ -	$ 103,059
Investment income	6,484	371	27	-	6,882
Net assets released from restrictions used for operations	741	-	-	-	741
Other revenue	1,066	876	250	(230)	1,962
Total revenues, gains and other support	82,369	30,228	277	(230)	112,644
Expenses:					
Salaries, wages and fringe benefits	39,318	13,812	-	-	53,130
Materials, supplies and services	28,588	8,471	77	-	37,136
Depreciation and amortization	(1,263)	(123)	-	-	(1,386)
Interest	2,607	1,100	-	-	3,707
Total expenses	69,250	23,260	77	-	92,587
Net income	13,119	6,968	200	(230)	20,057
Unrealized appreciation of investments	2,914	1,276	(2)	-	4,188
Transfers to affiliates, net	(7,610)	(397)	-	-	(8,007)
Other	(804)	-	690	65	(49)
Increase in unrestricted net assets	$ 7,619	$ 7,847	$ 888	$ (165)	$ 16,189

CL 145663

ALLEGHENY UNIVERSITY MEDICAL CENTERS

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
(Dollars in Thousands)

	Forbes Hospitals for the period January 1, 1997 through June 30, 1997	Allegheny Valley Hospital for the period March 1, 1997 through June 30, 1997	FHS Insurance, Ltd. for the period January 1, 1997 through June 30, 1997	Elim.	Consolidated AUMC
Unrestricted net assets:					
Net income	$ 13,119	$ 6,968	$ 200	$ (230)	$ 20,057
Unrealized appreciation/(depreciation) of investments	2,914	1,276	(2)	-	4,188
Transfers to affiliates	(7,610)	(397)	-	-	(8,007)
Other	(804)	-	690	65	(49)
Increase in unrestricted net assets	7,619	7,847	888	(165)	16,189
Permanently restricted net assets:					
Investment income	735	-	-	-	735
Unrealized appreciation of investments	1,419	-	-	-	1,419
Acquisition of affiliates	17,539	-	-	-	17,539
Other	(741)	-	-	-	(741)
Increase in permanently restricted net assets	18,952	-	-	-	18,952
Increase in net assets	26,571	7,847	888	(165)	35,141
Net assets, beginning of year	-	-	-	-	-
Net assets, end of year	$ 26,571	$ 7,847	$ 888	$ (165)	$ 35,141

ALLEGHENY UNIVERSITY MEDICAL CENTERS

CONSOLIDATING STATEMENT OF CASH FLOWS
(Dollars in Thousands)

	Forbes Hospitals for the period January 1, 1997 through June 30, 1997	Allegheny Valley Hospital for the period March 1, 1997 through June 30, 1997	FHS Insurance, Ltd. for the period January 1, 1997 through June 30, 1997	Elim.	Consolidated AUMC
Cash flows from operating activities:					
Change in net assets	$ 26,571	$ 7,847	$ 888	$ (165)	$ 35,141
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:					
Depreciation and amortization	(1,263)	(123)	-	-	(1,386)
Net assets balances related to business combinations	(17,539)	-	-	-	(17,539)
Increase/(decrease) in cash from changes in:					
Receivables	(5,591)	(4,626)	201	-	(10,016)
Inventories	(2)	22	-	-	20
Prepaid expenses	859	768	13	-	1,640
Accounts payable and accrued expenses	(7,871)	(3,076)	229	-	(10,718)
Self-insurance liabilities	-	-	361	-	361
Other	(427)	543	(807)	165	(526)
Net cash provided/(used) by operating activities	(5,263)	1,355	885	-	(3,023)
Cash flows from investing activities:					
Acquisition of property and equipment, net	(3,218)	(932)	-	-	(4,150)
Decrease/(increase) in assets limited or restricted as to use, net	296	(2,205)	(21)	-	(1,930)
Cash balances related to business combinations	981	847	24	-	1,852
Net cash provided/(used) by investing activities	(1,941)	(2,290)	3	-	(4,228)
Cash flows from financing activities:					
Due to affiliates	12,313	4,319	-	-	16,632
Issuance/(repayments) of long-term debt	40	(692)	-	-	(652)
Net cash provided by financing activities	12,353	3,627	-	-	15,980
Net increase in cash and cash equivalents	5,149	2,692	888	-	8,729
Cash and cash equivalents, beginning of year	-	-	-	-	-
Cash and cash equivalents, end of year	$ 5,149	$ 2,692	$ 888	$ -	$ 8,729
Supplemental disclosure:					
Cash paid for interest, net of capitalized interest	$ 2,613	$ 6	$ -	$ -	$ 2,619

CL 145665

DELAWARE VALLEY OBLIGATED GROUP

COMBINING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

ASSETS

	MCP Hospital	Elkins Park Hospital	Bucks County Hospital	Hahnemann Hospital	Management Support Services	St. Christopher's	Allegheny University of the Health Sciences	Elim.	Combined Delaware Valley Obligated Group
Current assets:									
Cash and cash equivalents	$ 4,122	$ 311	$ 449	$ 11,763	$ 307	$ 3,437	$ 55	$ -	$ 20,444
Short-term investments	-	-	-	-	-	6	-	-	6
Assets limited or restricted as to use	1,383	-	-	6,239	5	1,202	17,338	-	26,167
Receivables:									
Patient accounts, net	45,201	12,364	10,158	56,451	1,511	35,261	40,968	-	201,914
Grants and other	2,911	201	17	3,205	49	2,142	31,787	-	40,312
Inventories	2,990	631	516	6,759	274	1,493	70	-	12,733
Prepaid expenses	1,270	185	254	1,779	122	449	509	-	4,568
Total current assets	57,877	13,692	11,394	86,196	2,268	43,990	90,727	-	306,144
Assets limited or restricted as to use, net of current portion	5,468	27	-	26,908	-	30,589	141,330	-	204,322
Property and equipment, net	78,387	27,715	21,524	172,565	5,164	77,320	93,516	-	476,191
Due from affiliates	5,848	3,946	4,341	44,660	22,679	6,966	-	(90,440)	-
Other assets	8,967	4,026	4,259	8,760	2,510	8,170	4,946	-	41,638
Total assets	$ 156,547	$ 51,406	$ 41,518	$ 339,089	$ 32,621	$ 167,035	$ 330,519	$ (90,440)	$ 1,028,295

LIABILITIES AND NET ASSETS

	MCP Hospital	Elkins Park Hospital	Bucks County Hospital	Hahnemann Hospital	Management Support Services	St. Christopher's	Allegheny University of the Health Sciences	Elim.	Combined Delaware Valley Obligated Group
Current liabilities:									
Accounts payable and accrued expenses	$ 26,313	$ 6,129	$ 3,728	$ 42,203	$ 9,427	$ 15,288	$ 26,595	$ -	$ 129,683
Deferred revenue	55	-	-	560	-	836	16,372	-	17,823
Line of credit	15,000	-	-	15,000	24,100	-	3,000	-	57,100
Current portion of long-term debt	1,218	2,719	1,104	6,577	-	1,185	-	-	12,803
Total current liabilities	42,586	8,848	4,832	64,340	33,527	17,309	45,967	-	217,409
Long-term debt, net of current portion	58,005	57,240	18,929	178,004	-	46,234	36,066	-	394,478
Self-insurance liabilities	-	-	-	3,886	-	-	3,434	-	7,320
Due to affiliates	-	23,584	16,085	-	-	-	91,763	(90,440)	40,992
Other noncurrent liabilities	-	56	110	-	44	137	19,343	-	19,690
Total liabilities	100,591	89,728	39,956	246,230	33,571	63,680	196,573	(90,440)	679,889
Net assets:									
Unrestricted	52,451	(38,566)	1,527	67,691	(949)	88,258	20,858	-	191,270
Restricted:									
Temporarily	2,006	244	35	8,025	(1)	11,031	55,657	-	76,997
Permanently	1,499	-	-	17,143	-	4,066	57,431	-	80,139
Total net assets	55,956	(38,322)	1,562	92,859	(950)	103,355	133,946	-	348,406
Total liabilities and net assets	$ 156,547	$ 51,406	$ 41,518	$ 339,089	$ 32,621	$ 167,035	$ 330,519	$ (90,440)	$ 1,028,295

CL 145666

DELAWARE VALLEY OBLIGATED GROUP

COMBINING STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

	MCP Hospital	Elkins Park Hospital	Bucks County Hospital	Hahnemann Hospital	Management Support Services	St. Christopher's	Allegheny University of the Health Sciences	Elim.	Combined Delaware Valley Obligated Group
Unrestricted revenues, gains and other support:									
Net patient service revenue	$ 217,699	$ 61,297	$ 51,593	$ 330,099	$ -	$ 133,029	$ 163,263	$ -	$ 956,980
Research and training support	1,350	-	-	3,706	-	2,111	58,910	-	66,077
Academic activities	2	134	17	-	-	791	63,490	-	64,434
Investment income	468	25	7	6,501	-	4,665	6,130	-	17,796
Net assets released from restrictions used for operations	176	19	14	512	-	911	6,754	-	8,386
Other revenue	9,477	651	944	6,552	5,106	6,720	87,779	(53,288)	63,941
Total revenues, gains and other support	229,172	62,126	52,575	347,370	5,106	148,227	386,326	(53,288)	1,177,614
Expenses:									
Salaries, wages and fringe benefits	108,281	27,213	22,640	161,514	17,770	66,041	257,911	-	661,370
Materials, supplies and services	95,474	23,823	20,679	145,343	(17,383)	63,325	133,105	(53,288)	411,078
Depreciation and amortization	10,383	3,193	3,285	18,803	6,312	7,833	7,290	-	57,099
Interest	3,377	5,131	1,871	9,547	(1,593)	2,740	3,293	-	24,366
Total expenses	217,515	59,360	48,475	335,207	5,106	139,939	401,599	(53,288)	1,153,913
Net income/(loss)	11,657	2,766	4,100	12,163	-	8,288	(15,273)	-	23,701
Net assets released from restrictions used for acquisition of property and equipment	-	-	-	-	-	20	208	-	228
Unrealized depreciation of investments	(96)	-	-	(6,113)	-	(719)	(987)	-	(7,915)
Transfers (to)/from other net assets	(150)	25	-	(159)	-	400	(1,783)	-	(1,667)
Transfers (to)/from affiliates, net	(3,245)	1,001	1,331	(2,820)	-	6,553	23,177	-	25,997
Other	-	1	-	-	-	-	-	-	1
Increase in unrestricted net assets	$ 8,166	$ 3,793	$ 5,431	$ 3,071	$ -	$ 14,542	$ 5,342	$ -	$ 40,345

CL 145667

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DELAWARE VALLEY OBLIGATED GROUP

COMBINING STATEMENT OF CHANGES IN NET ASSETS
For the year ended June 30, 1997
(Dollars in Thousands)

	MCP Hospital	Elkins Park Hospital	Bucks County Hospital	Hahnemann Hospital	Management Support Services	St Christopher's	Allegheny University of the Health Sciences	Elim	Combined Delaware Valley Obligated Group
Unrestricted net assets:									
Net income/(loss)	$ 11,657	$ 2,766	$ 4,100	$ 12,163	$ -	$ 8,288	$ (15,273)	$ -	$ 23,701
Net assets released from restrictions used for acquisition of property and equipment	-	-	-	-	-	20	208	-	228
Unrealized depreciation of investments	(96)	-	-	(6,113)	-	(719)	(987)	-	(7,915)
Transfers (to)/from other net assets	(150)	25	-	(159)	-	400	(1,783)	-	(1,667)
Transfers (to)/from affiliates	(3,245)	1,001	1,331	(2,820)	-	6,553	23,177	-	25,997
Other	-	1	-	-	-	-	-	-	1
Increase in unrestricted net assets	8,166	3,793	5,431	3,071	-	14,542	5,342	-	40,345
Temporarily restricted net assets:									
Contributions	5	83	25	5	-	2,223	8,052	-	10,393
Investment income	626	2	-	2,967	-	784	14,668	-	19,047
Net assets released from restrictions	(176)	(19)	(14)	(512)	-	(931)	(6,962)	-	(8,614)
Unrealized depreciation of investments	(88)	-	-	(461)	-	-	(1,654)	-	(2,203)
Transfers (to)/from other net assets	150	(25)	-	175	-	3	2,170	-	2,473
Transfers from affiliates	-	-	-	-	-	-	5,848	-	5,848
Increase in temporarily restricted net assets	517	41	11	2,174	-	2,079	22,122	-	26,944
Permanently restricted net assets:									
Contributions	29	-	-	-	-	966	1,694	-	2,689
Investment income	15	-	-	-	-	-	355	-	370
Unrealized appreciation of investments	-	-	-	1,753	-	-	(56)	-	1,697
Transfers to other net assets	-	-	-	(16)	-	(403)	(387)	-	(806)
Transfers from affiliates	-	-	-	-	-	388	8,558	-	8,946
Increase in permanently restricted net assets	44	-	-	1,737	-	951	10,164	-	12,896
Increase in net assets	8,727	3,834	5,442	6,982	-	17,572	37,628	-	80,185
Net assets, beginning of year	47,229	(42,156)	(3,880)	85,877	(950)	85,783	96,318	-	268,221
Net assets, end of year	$ 55,956	$ (38,322)	$ 1,562	$ 92,859	$ (950)	$ 103,355	$ 133,946	$ -	$ 348,406

CL 145668

DELAWARE VALLEY OBLIGATED GROUP

COMBINING STATEMENT OF CASH FLOWS
For the year ended June 30, 1997
(Dollars in Thousands)

	MCP Hospital	Elkins Park Hospital	Bucks County Hospital	Hahnemann Hospital	Management Support Services	St. Christopher's	Allegheny University of the Health Sciences	Elim.	Combined Delaware Valley Obligated Group
Cash flows from operating activities:									
Change in net assets	$ 8,727	$ 3,834	$ 5,442	$ 6,982	$ -	$ 17,572	$ 37,628	$ -	$ 80,185
Adjustments to reconcile change in net assets to net cash provided by operating activities:									
Depreciation and amortization	10,383	3,193	3,283	18,805	6,312	7,833	7,290	-	57,099
Transfers from affiliates	(12,363)	(8,101)	(8,103)	(12,446)	-	(12,502)	(4,624)	-	(58,139)
Net assets balances related to business combinations	-	-	-	-	-	-	(33,302)	-	(33,302)
Increase/(decrease) in cash from changes in:									
Short-term investments	-	-	-	-	-	(6)	-	-	(6)
Receivables	(2,726)	900	(120)	11,361	(1,503)	5,869	(11,336)	-	2,445
Inventories	(81)	35	61	(210)	(65)	346	(70)	-	16
Prepaid expenses	(467)	6	87	(543)	12	(34)	(250)	-	(1,188)
Accounts payable and accrued expenses	4,242	733	(459)	8,358	4,069	(9,618)	(341)	-	6,984
Deferred revenue	(153)	-	-	(422)	-	239	354	-	18
Self-insurance liabilities	-	-	-	(644)	-	-	(1,466)	-	(2,110)
Other	448	(38)	35	(77)	(1,116)	(3,236)	(1,418)	-	(5,402)
Net cash provided by operating activities	8,010	562	228	31,163	7,709	6,463	(7,535)	-	46,600
Cash flows from investing activities:									
Acquisition of property and equipment, net	(8,337)	(460)	(608)	(12,860)	(2,137)	(10,498)	(16,518)	-	(51,418)
Decrease/(increase) in assets limited or restricted as to use, net	(11)	(2)	-	3,561	5	(6,176)	(23,257)	-	(25,880)
Net cash used by investing activities	(8,348)	(462)	(608)	(9,299)	(2,132)	(16,674)	(39,775)	-	(77,298)
Cash flows from financing activities:									
Net drawdowns/(repayments) on lines of credit	4,000	-	-	4,000	11,800	-	(3,000)	-	16,800
Due to/from affiliates	(3,769)	54	659	(21,038)	(17,269)	(1,314)	49,617	-	6,940
Issuance/(repayments) of long-term debt	14	(882)	(900)	1,869	-	19	-	-	120
Net cash provided/(used) by financing activities	245	(828)	(241)	(15,169)	(5,469)	(1,295)	46,617	-	23,860
Net increase/(decrease) in cash and cash equivalents	(93)	(728)	(621)	6,695	108	(11,506)	(693)	-	(6,838)
Cash and cash equivalents, beginning of year	4,215	1,039	1,070	5,068	199	14,943	748	-	27,282
Cash and cash equivalents, end of year	$ 4,122	$ 311	$ 449	$ 11,763	$ 307	$ 3,437	$ 55	$ -	$ 20,444
Supplemental disclosure:									
Cash paid for interest, net of capitalized interest	$ 3,855	$ 3,034	$ 1,348	$ 10,693	$ 1,593	$ 3,269	$ 2,265	$ -	$ 26,037

CL 145669

ALLEGHENY HOSPITALS, CENTENNIAL

COMBINING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

ASSETS

	Graduate Hospital	Mt. Sinai Hospital	City Avenue Hospital	Parkview Hospital	Elim.	Combined Allegheny Hospitals, Centennial
Current assets:						
Cash and cash equivalents	$ 903	$ 65	$ -	$ -	$ -	$ 968
Short-term investments	500	-	-	-	-	500
Assets limited or restricted as to use	8,945	2,750	-	-	-	11,695
Receivables:					-	
Patient accounts, net	29,356	6,781	6,648	6,837	-	49,622
Grants and other	5,877	283	66	42	4,581	10,849
Inventories	5,597	189	779	573	-	7,138
Prepaid expenses	1,417	162	30	55	-	1,664
Total current assets	52,595	10,230	7,523	7,507	4,581	82,436
Assets limited or restricted as to use, net of current portion	54,333	3,907	-	-	-	58,240
Property and equipment, net	80,808	8,135	24,868	30,312	-	144,123
Due from affiliates	13,876	-	-	-	(13,876)	-
Other assets	7,475	57,541	26,615	14,203	-	105,834
Total assets	$ 209,087	$ 79,813	$ 59,006	$ 52,022	$ (9,295)	$ 390,633

LIABILITIES AND NET ASSETS

	Graduate Hospital	Mt. Sinai Hospital	City Avenue Hospital	Parkview Hospital	Elim.	Combined Allegheny Hospitals, Centennial
Current liabilities:						
Accounts payable and accrued expenses	$ 38,051	$ 12,441	$ 9,646	$ 7,939	$ -	$ 68,077
Deferred revenue	62	-	549	531	-	1,142
Current portion of long-term debt	5,840	1,445	158	469	-	7,912
Total current liabilities	43,953	13,886	10,353	8,939	-	77,131
Long-term debt, net of current portion	117,714	41,640	3,799	2,872	-	166,025
Due to affiliates	-	24,293	44,749	40,502	(9,295)	100,249
Other noncurrent liabilities	11,979	27	-	-	-	12,006
Total liabilities	173,646	79,846	58,901	52,313	(9,295)	355,411
Net assets:						
Unrestricted	10,494	(33)	105	(291)	-	10,275
Restricted:						
Temporarily	17,776	-	-	-	-	17,776
Permanently	7,171	-	-	-	-	7,171
Total net assets	35,441	(33)	105	(291)	-	35,222
Total liabilities and net assets	$ 209,087	$ 79,813	$ 59,006	$ 52,022	$ (9,295)	$ 390,633

CL 145670

ALLEGHENY HOSPITALS, CENTENNIAL

COMBINING STATEMENT OF OPERATIONS
For the period May 1, 1997 through June 30, 1997
(Dollars in Thousands)

	Graduate Hospital	Mt. Sinai Hospital	City Avenue Hospital	Parkview Hospital	Elim.	Combined Allegheny Hospitals, Centennial
Unrestricted revenues, gains and other support:						
Net patient service revenue	$ 40,603	$ 5,092	$ 11,106	$ 8,042	$ -	$ 64,843
Research and training support	96	-	-	-	-	96
Investment income	952	54	-	-	-	1,006
Net assets released from restrictions used for operations	189	-	-	-	-	189
Other revenue	1,061	863	67	202	(55)	2,138
Total revenues, gains and other support	42,901	6,009	11,173	8,244	(55)	68,272
Expenses:						
Salaries, wages and fringe benefits	12,689	3,255	5,919	4,185	-	26,048
Materials, supplies and services	18,141	1,906	4,192	3,618	(55)	27,802
Depreciation and amortization	431	262	610	443	-	1,746
Interest	1,197	586	322	264	-	2,369
Total expenses	32,458	6,009	11,043	8,510	(55)	57,965
Net income/(loss)	10,443	-	130	(266)	-	10,307
Unrealized appreciation/(depreciation) of investments	73	(33)	-	-	-	40
Transfers to affiliates, net	(22)	-	(25)	(25)	-	(72)
Increase/(decrease) in unrestricted net assets	$ 10,494	$ (33)	$ 105	$ (291)	$ -	$ 10,275

CL 145671

ALLEGHENY HOSPITALS, CENTENNIAL

COMBINING STATEMENT OF CHANGES IN NET ASSETS
For the period May 1, 1997 through June 30, 1997
(Dollars in Thousands)

	Graduate Hospital	Mt. Sinai Hospital	City Avenue Hospital	Parkview Hospital	Elim.	Combined Allegheny Hospitals, Centennial
Unrestricted net assets:						
Net income/(loss)	$ 10,443	$ -	$ 130	$ (266)	$ -	$ 10,307
Unrealized appreciation/(depreciation) of investments	73	(33)	-	-	-	40
Transfers to affiliates	(22)	-	(25)	(25)	-	(72)
Increase/(decrease) in unrestricted net assets	10,494	(33)	105	(291)	-	10,275
Temporarily restricted net assets:						
Contributions	89	-	-	-	-	89
Investment income	158	-	-	-	-	158
Net assets released from restrictions	(189)	-	-	-	-	(189)
Unrealized appreciation of investments	978	-	-	-	-	978
Acquisition of affiliates	16,740	-	-	-	-	16,740
Increase in temporarily restricted net assets	17,776	-	-	-	-	17,776
Permanently restricted net assets:						
Contributions	56	-	-	-	-	56
Acquisition of affiliates	7,115	-	-	-	-	7,115
Increase in permanently restricted net assets	7,171	-	-	-	-	7,171
Increase/(decrease) in net assets	35,441	(33)	105	(291)	-	35,222
Net assets, beginning of year	-	-	-	-	-	-
Net assets, end of year	$ 35,441	$ (33)	$ 105	$ (291)	$ -	$ 35,222

CL 145672

ALLEGHENY HOSPITALS, CENTENNIAL

COMBINING STATEMENT OF CASH FLOWS
For the period May 1, 1997 through June 30, 1997
(Dollars in Thousands)

	Graduate Hospital	Mt Sinai Hospital	City Avenue Hospital	Parkview Hospital	Elim	Consolidated Allegheny Hospitals, Centennial
Cash flows from operating activities:						
Change in net assets	$ 35,441	$ (33)	$ 105	$ (291)	$ -	$ 35,222
Adjustments to reconcile change in net assets to net cash used by operating activities:						
Depreciation and amortization	431	262	610	443	-	1,746
Net assets balances related to business combinations	(24,484)	-	-	-	-	(24,484)
Increase/(decrease) in cash from changes in:						
Short-term investments	(500)	-	-	-	-	(500)
Receivables	(625)	(804)	(875)	(1,583)	-	(3,887)
Inventories	(989)	38	(228)	(35)	-	(1,214)
Prepaid expenses	(677)	(86)	124	76	-	(563)
Accounts payable and accrued expenses	(18,313)	(6,394)	(3,164)	(2,530)	-	(30,401)
Deferred revenue	-	-	-	-	-	-
Self-insurance liabilities	-	-	-	-	-	-
Other	(3,460)	(486)	(37)	-	-	(3,983)
Net cash used by operating activities	(13,176)	(7,703)	(3,465)	(3,920)	-	(28,264)
Cash flows from investing activities:						
Acquisition of property and equipment, net	(3,117)	(135)	(941)	(15)	-	(4,208)
Decrease/(increase) in assets limited or restricted as to use, net	837	(1,420)	93	-	-	(490)
Cash balances related to business combinations	4,696	-	-	-	-	4,696
Net cash provided/(used) by investing activities	2,416	(1,555)	(848)	(15)	-	(2)
Cash flows from financing activities:						
Net repayments of lines of credit	-	-	(3,755)	(2,401)	-	(6,156)
Due to/from affiliates	11,781	9,314	8,072	6,427	-	35,594
Issuance/(repayments) of long-term debt	(118)	9	(4)	(91)	-	(204)
Net cash provided by financing activities	11,663	9,323	4,313	3,935	-	29,234
Net increase in cash and cash equivalents	903	65	-	-	-	968
Cash and cash equivalents, beginning of year	-	-	-	-	-	-
Cash and cash equivalents, end of year	$ 903	$ 65	$ -	$ -	$ -	$ 968
Supplemental disclosure:						
Cash paid for interest, net of capitalized interest	$ -	$ 848	$ 63	$ 53	$ -	$ 964

CL 145673

EXHIBIT 4436

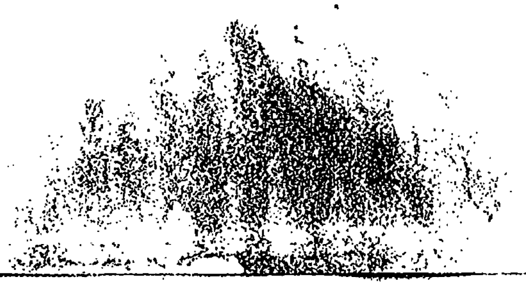
Amor
Priorities
Assessments

O/Hd

ARM — pv22

PWCK2 42

EXIT - SUBJECTING PURCHASER MOVIES



4/21 Conf call

- $50 mm add'l reserves
- $44 mm asset @ Mt. Sinai to Graduate
- Mt. Sinai to be sold for $10 mm.
- along with Allegh?? Prem or subsequent ??
-
- DGM recapture
  - view as not under
    1) GW
    2) other intangibles
    3) ↓ in expenses.

Write down $50 mm (part 1/2 Brown A/R)

-

Summary ~~[illegible]~~ conclusions

1) Debts generated by purch. acct. to pride over 30 yrs.
   - will occur @ time to [illegible]
2) 25% of DGM recapture [illegible] incurred in '97.
   - [illegible] says may not need DGM recapture to [illegible]
   -
3) Control date of GHS
   - debated 2/97 vs 5/97
   - SHD operation expl'n. for 3 month period

Add note to audit to [illegible] from SGH in 1/97.

5) Will accrue for costs to close & losses @ Mt Sinai from sale date to closed.

6) AHS purchase
   - to date $44 mm spent by Graduate
   - to [illegible] assets @ GHS @ [illegible] & in other assets
   - $9.6 mm liab. remains. — Allegh will gross up B/S & asset as intangibles.

View consolidated [illegible] as acquisition

- Purchase acct or → due to disposition of Mt. Sinai & [illegible] purchase of for [illegible]
  - Effective date - 2/97 for ch. purchase

7) FMV vs BV of debt - disc is [illegible] — s/b [illegible]
8) Push down acct.

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222

DAN C. 4/18 — BUETTNER / FRAZIER

- GOODWILL @ MT. SINAI
- ~~RE~~ MT. SINAI IS BEING SOLD FOR $10 MM
- GRADUATE WILL ~~$~~ ASSUME DEBT. OF $40 MM
  - IN ESSENCE, AMORT. PURCHASE PRICE FOR GRADUATE
- CH RECOMMENDS PUT IN PP&E & RECOVER OVER DEPN.
  - AHERF WILL GO 30-35 YRS
  - CH WILL ASSESS LIFE & SUP. DIFFERENCE.

- $50 MM RESERVES @ GRADUATE
  - WILL HAVE $80 MM C/O IN DV BY 6/30/97 (GROSS # ON A/R OUTPATIENT.)
  -
  - PLACING RESERVES ON GRADUATE ENTITIES TO BE USED FOR DV A/R @ Y/E.
  - DOES NOT BELIEVE THERE IS ANY GENERAL RESERVES OTHER THAN $50 MM.
  - BECOMES PART OF PP&E / INTANGIBLE. AS PART OF PURCHASE ADJUSTMENT FROM SAN TO AHERF
    - OTHERS A/R PROVISION TO BE DETERMINED.

- DEPR. RECAPTURE
  - VIEWED AS PURCHASED NOL
    - OFFSET AGAINST GOODWILL WHEN UTILIZED
    - IF NO GOODWILL, OK TO GO THRU INCOME
  - OK IN '97 AS UNCERTAINTY IS REMOVED
    - RESEARCH

EXHIBIT 4440

Coopers & Lybrand | Coopers & Lybrand L.L.P. a professional services firm | 600 Grant Street Pittsburgh, PA 15219

inter-office correspondence

to: Steve Elek

date: November 12, 1996

from: Amy Frazier

subject: Highlights of D&T Graduate Workpaper Review

The following represents a summary of the highlights of the audit workpaper review for fiscal years 1995 and 1994 that I performed on November 11th and 12th. My review included The Graduate Hospital, Mt. Sinai Hospital and Parkview Hospital and City Avenue Hospital. As you are aware, I will be returning to D&T on Wednesday, November 13th to finalize my review. The following summary is broken down by reporting entity.

The Graduate Hospital (TGH)

- Management of TGH has reached the conclusion that reporting under the requirements of OMB Circular A-133 is not applicable based on the specific exclusion clause for hospital organizations from the definition of not-for-profit organization in the circular. However, based on my review of historical background of TGH, it appears that there is a contractual affiliate relationship with the University of Pennsylvania (the University) since its separation from the University. This relationship should be further analyzed based on the clarification of an affiliation by the Department of Health and Human Services in the March 1, 1991 Federal Register. D&T has concurred with management's conclusions and have not issued a report on TGH's compliance in accordance with OMB Circular A-133. Additionally, it should be noted that according to D&T's explanation of income and expense recognizing policies for grant funding, management defers recognition until the cash is received (ie., all expenses are accumulated on the balance sheet as a grant receivable and recognized as revenue and expense when the funds are received). This treatment should only result in a gross up of the income statement accounts with no bottom line impact. There was approximately $824,000 in the ending receivable at 6/30/95 (this is contained within two trial balance accounts).
- D&T accounts receivable testing highlighted that TGH is involved in a capitation agreement with Wise Choice. At 6/30/95, in-house and DNFB accounts are written down to zero (ie., estimating no collections) and 15% of gross charges for final billed accounts. The amount appears to be conservation by assuming no collections on in-house and DNFB accounts, however review of the agreement is necessary to make a clear assessment of the collectibility of the amounts recorded.
- D&T has expressed that loans to physicians represent a riskier audit area due to weak payment histories of such accounts. The client has typically assessed reasonable reserve levels on such accounts. D&T however, has proposed an adjustment, which is passed on by the client, to increase such reserve levels to the entire outstanding balance. A proposed comment was suggested to improve monitoring controls over such accounts. As of 6/30/95, most accounts had aged beyond 90 days and repayments on the accounts have not been consistent. Certain accounts have been written off in prior years. Management should continue to focus on the sensitivity of these accounts and the personal tax ramifications to the physicians of writing off such accounts.

CL 154407

DEPOSITION EXHIBIT 4440 6-10-04

PENGAD 800-631-6989

- During 1994, TGH engaged Valuation Counselors to perform an inventory of TGH's property and equipment. The results of this inventory indicated that certain assets had been over depreciated in prior years, resulting in $4.4 million of excess accumulated depreciation. TGH viewed 1994 as an opportunity to reconcile and improve recordkeeping over the fixed asset system. As a result, $4 million of the $4.4 million general depreciation reserves were utilized during 1994 for the following:

reclass to CRA's for depr. errors in the filed cost reports	$2.0 million
write-off of reconciling differences between the fixed asset detail and the inventory (ie., assets were not located or the asset was retired in practice however, the NBV had not expensed).	1.3 million
reduction to current year depreciation	.6 million
Valuation Counselors inventory fees	.06 million
other	.04 million
Total	$4.0 million

As a result of the above uses, a $400,000 general depreciation reserve remains at 6/30/95. Additionally, the results of the inventory resulted in approximately $9.2 million of fully depreciated assets to be removed from the fixed asset subsidiary ledger since the items were not located or were no longer in service and had been retired for all practical purposes.

- Included in investments is the amount (ie., approximately $5.1 million) related to the proceeds received from the REIT/saleleasback with Omega Healthcare. The amount is net of a $2.5 million loan. The deferred gain recorded in deferred revenue is being amortized over a 17 year period (ie., the life of the lease). At this point, I have not reviewed support for this transaction and have not seen the particulars supporting the loan.
- 1995 and 1994 workpapers indicate that approximately $300,000 of general cushion is included in the unapplied cash account (ie., account #112099)
- TGH's patient accounting system provides for a one-day time lag between the transfer of accounts from DNFB and final billed status. As a result, management continues to assess an estimated contractual allowance for those accounts included in the lag account at month end until the amounts net at the time of transfer to final billed status.
- The 9/19/94 board minutes indicated an affiliation with Bryn Mawr Hospital was established, also noted in the minutes was that on 10/1/94 TGH was to acquire a Lithotripsy Center in NJ which has 100 urologists and finally the 3/20/95 minutes indicate that a request for approval of closure of the Zurbrugg Hospital and the consolidation of programs and services at Rancocas Hospital was made. What is the status of these items?

Mt. Sinai Hospital (MSH)

- D&T proposed an adjustment to CRA's for $150,000 of cushion, however, the workpapers were unclear as to which payor or year it related to.
- It was noted based on my review of accounts receivable that uncollected outpatient ancillary charges due to the overall immateriality are accrued at gross charges, all other charges are netted at the time of billing. Management should continue to monitor the growth in such charges to ensure this methodology is appropriate.

- During fiscal year 1995, management reversed approximately $680,000 of bad debt reserves based on the results of their balance sheet analysis indicated excess reserves were not necessary.
- MSH has a 50% equity interest in MSH/US Regional Occupational and Sport Medicine, Inc. Based on my review of the workpapers, it does not appear operating losses are properly recorded in the financial statements by management under the equity method of accounting, however, these amounts were immaterial (ie., approximately $13,000) at 6/30/95. Management should continue to monitor such operating results since they could fluctuate to more material levels in future fiscal years.

Parkview Hospital/City Avenue Hospital

- According to the lead sheet in the 6/30/95 cash workpapers, approximately $2.4 million of negative cash was reclassified to accounts payable.
- There was approximately $70,000 of legal reserves recorded, however, no discussion on the need for such reserves.
- On a whole, there appears to be various general reserves/cushions available on this reporting entity such as, $124,100 related to a settlement payment for physician contract (it appears this has been paid), an accrual included in the vacation accrual for $275,000 for personal time (this time is not covered in the policy as qualifying time that can be carried forward) and accrued pension cushion of $65,800 related to current year contributions. These amounts are from the 6/30/95 audit files.

Items Applicable to All Entities Reviewed

- Based on my review of the financial statements and various workpapers supporting benefit obligations, D&T performed the analysis of the unfunded obligation to be recorded in the financial statements of the respective entities as a result of the termination of the defined benefit plan provided to non-union employees prior to 1991. This unfunded amount has been allocated to all participating entities in the multi-employer plan. At the time of the termination, a defined contribution plan replaced the defined benefit plan. Current footnote disclosure does not clarify if the plan is a 403(b) plan or a 401(k) plan, however I noted reference to both throughout my review of the workpapers. Are there any audit requirements if a qualifying 401(k) plan? Additionally, has a transition plan been established for those entities that are covered by the plan that will not be joining in the merger process?
- Professional and general liability coverage is provided to members of the Graduate Health System through a captive insurance company incorporated in Bermuda, GHS Re Limited. Based on my review of the financial statements and the workpapers, will such coverage continue to be provided to those entities which will not be joining in the merger process?
- Based on my review, it was not apparent that there were restricted assets related to the professional/general liability insurance programs or the workers compensation program. Have they been waived of such requirements for former PHICO amounts and workers compensation reserves?
- Those entities which maintain Rittenhouse investment advisors/trustees, do not receive confirmation of the historical cost basis of the account balances, therefore tracking of the funds cost basis is a manual process which accumulates dividends and gains/losses that are reinvested in the accounts.
- Intercompany accounts were generally confirmed with other audit teams of D&T performing affiliate work. It appears that the most significant balances are between affiliates and Graduate Health System. How have repayment terms been structured since Graduate Health System will not be joining in the merger process? Additionally, a reserve has been recorded at TGH against the intercompany receivables for collectibility, however, there was no support for the reserve, analysis was waived due to its consistency with prior year. The amounts were classified as non-current and specific representation was received from management regarding the long-term classification.